

**IONIC BRANDS CORP.
(FORMERLY ZARA RESOURCES INC.)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

(EXPRESSED IN UNITED STATES DOLLARS)

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GENERAL

The following Management's Discussion and Analysis ("MD&A") has been prepared by management and is provided to enable readers to assess the results of operations and financial condition of Ionic Brands Corp. ("Ionic" or the "Company") for the year ended December 31, 2019. This MD&A should be read in conjunction with our consolidated financial statements and related notes for the years ended December 31, 2019 and 2018, and are based on known risks and uncertainties. The terms "Ionic", the "Company", "we", "us", and "our" in the following MD&A refer to IONIC BRANDS Corp. All amounts, unless noted otherwise, are in United States dollars and are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements, along with additional information on the Company, are available on SEDAR at www.sedar.com, or on the Company's website at www.ionicbrands.com. The Board of Directors of the Company under the recommendation of its Audit Committee has approved the contents of this MD&A, and this report covers other relevant information available up to September 30, 2020.

Forward-Looking Information

This MD&A contains forward-looking statements or forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995, and applicable Canadian securities laws. Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimated," "potential," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. Forward-looking statements are statements concerning the Company's current beliefs, plans and expectations about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, the risks that: (i) any of the assumptions in the resource estimates turn out to be incorrect, incomplete, or flawed in any respect; (ii) the methodologies and models used to prepare the resource estimates either underestimate or overestimate the resources due to hidden or unknown conditions, (iii) operations are disrupted or suspended due to acts of god, unforeseen government actions or other events; (iv) the Company experiences the loss of key personnel; (v) the Company's operations are adversely affected by other political or military, or terrorist activities; (vi) the Company becomes involved in any material disputes with any of its key business partners, lenders, suppliers or customers; or (vii) the Company is subjected to any hostile takeover or other unsolicited attempts to acquire control of the Company. Other factors that could cause the actual results to differ include market prices, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Other risks are more fully described under the heading "RISKS AND UNCERTAINTIES" below. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company assumes no obligation to update such forward-looking statements in the future, except as required by law. For the reasons set forth above, investors should not place undue reliance on the Company's forward-looking statements.

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COMPANY OVERVIEW

Ionic Brands Corp. (formerly Zara Resources Inc.) ("Ionic", "Zara" or the "Company") was incorporated on October 9, 2012 in the province of Ontario. On July 3, 2013, the Company received its Certificate of Continuation to be governed under the British Columbia Business Corporation Act. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "IONC". The head office of the Company is located at 1142 Broadway, Suite 300, Tacoma, Washington, USA.

On March 22, 2019, the Company completed the acquisition of Blacklist Holdings Inc. ("Blacklist"), a private Washington-based company that was incorporated on February 26, 2014. Blacklist's business is the sale of cannabis related hard goods (such as cartridges, applicators, pens, jars, etc.), the providing of services, the licensing of its intellectual property ("Licensed IP") and the leasing of equipment to processors. The Company acquired all of the issued and outstanding shares of Blacklist under a share purchase agreement (the "Reverse Takeover Transaction", the "Transaction", or the "RTO"). In connection to the Transaction, the Company changed its name from Zara Resources Inc. to Ionic Brands Corp. and operating the primary business of Blacklist.

On the closing of the RTO, Blacklist became a wholly owned subsidiary of the Company. As Blacklist is deemed to be the accounting acquirer for accounting purposes, its assets and liabilities and operations since incorporation on February 26, 2014 are included in the consolidated financial statements at their historical carrying value. The Company's results of operations are included from the closing date: March 22, 2019 onwards. Please refer to the Reverse Acquisition in Note 3 of the financial statements for more details.

Ionic Brands is a national cannabis holdings company based in Washington State, led by a team of successful entrepreneurs. The Company is focused on building a multi-state consumer-focused cannabis concentrate brand portfolio focusing on the premium and luxury segments of the market. The cornerstone brand of the portfolio, Ionic, is one of the leading vaporizer brands in Washington State. The Company had aggressively expanded throughout the West coast of the United States and had been operating in Washington, Oregon, California and Nevada, and is currently operating only in Washington state and Oregon.

REVERSE ACQUISITION

On March 22, 2019, pursuant to the terms of the share exchange agreement (the "Agreement") the Company and Blacklist completed an amalgamation, whereby the Company acquired all of the issued and outstanding share capital of Blacklist, being 54,251,241 common shares, as a means by which Blacklist attained a public listing of its common shares.

Pursuant to the Share Exchange Agreement:

- The Company consolidated its issued and outstanding capital at a ratio that resulted in 331,995 Zara shares outstanding. The Zara shares issued in connection with the Transaction were issued on a post-consolidation basis.
- The Company and Blacklist completed a "three-cornered" amalgamation (the "Amalgamation") whereby a wholly-owned subsidiary of Zara, 1185669 BC Ltd ("Zara Subco") amalgamated with a wholly-owned subsidiary of Blacklist, Blacklist Finco Inc. ("Blacklist Finco"). Upon completion of the Amalgamation, one common share of Blacklist Finco was exchanged for one Zara share, with an aggregate of 14,280,146 Zara shares being issued. Each common share of Blacklist Finco exchanged under the Amalgamation was issued upon the conversion of subscription receipts of Blacklist Finco pursuant to their terms in the private placement completed in tranches on November 26, 2018 and December 4, 2018.
- The Company issued on closing 5,250,000 Zara shares to certain finders at a deemed price of \$0.50 per Zara share as finders' fees valued at \$1,957,374
- The Company also issued 6,000,000 warrants to consultants valued at \$2,026,615
- At the closing of the Transaction, the shareholders of Blacklist held 50% of Zara. Accordingly, Blacklist is considered to have acquired Zara with the transaction being accounted for as a reverse takeover of Zara by Blacklist shareholders.

The acquisition constitutes an asset acquisition as the Company does not meet the definition of a business, as defined in IFRS 3, Business Combinations. Additionally, as a result of the RTO, the statement of financial position has been adjusted for the elimination of the Company share capital, contributed surplus and accumulated deficit within shareholders' equity.

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As a result of this asset acquisition, a listing expense of \$4,626,778 has been recorded. This reflects the difference between the estimated fair value of Blacklist shares deemed to have been issued to the Company's shareholders less than the fair value of the assets of the Company's acquired.

The preliminary allocation of estimated consideration transferred is subject to change and is summarized as follows:

Consideration:		
Fair value of shares issued	\$	123,777
Total consideration		123,777
Fair value of net assets of the Company:		
Other receivables		5,395
Other payables		(524,407)
Total net assets		(519,012)
Finders' shares issued		1,957,374
Warrants issued to consultants		2,026,615
Listing expense	\$	4,626,778

ACQUISITION OF SUBSIDIARIES

Blacklist Brands CA Inc.

On January 1, 2019, Blacklist acquired 100% of the outstanding shares of Blacklist Brands CA Inc., a company, wholly-owned by the CEO, incorporated on August 9, 2018 in the state of California for a consideration of \$10.

This acquisition constitutes an asset acquisition as Blacklist California did not meet the definition of a business, as defined in IFRS 3, Business Combinations.

The allocation of consideration transferred is summarized as follows:

Due from unrelated party	\$	93,211
Fixed assets		10,000
Security deposits		5,250
Due to related parties		(284,592)
Loss on acquisition		176,141
	\$	10

Blacklist Holdings OR Inc.

Also on January 1, 2019, Blacklist acquired 100% of the outstanding shares of Blacklist Oregon Inc., a company, wholly-owned by the CEO, incorporated on August 9, 2018 in the state of Oregon for a consideration of \$10.

This acquisition constitutes an asset acquisition as Blacklist Oregon did not meet the definition of a business, as defined in IFRS 3, Business Combinations.

The allocation of consideration transferred is summarized as follows:

Cash	\$	27,333
Accounts receivable		2,091
Due to related parties		(581,555)
Loss on acquisition		552,141
	\$	10

Natural Extractions, Inc.

On April 1, 2019, Blacklist signed a management agreement with Natural Extractions, Inc. ("NE"), a company incorporated in the state of Washington, whereby Blacklist provides management services to NE and retains 100% gross revenues less payments due and owing from operations of NE. At the same time, Blacklist also entered into a letter of intent with NE shareholders whereby Blacklist shall acquire the assets and operations of NE for a consideration consisting of a cash payment of \$855,000 and issuance of 6,228,201 common shares, as well as

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issuance of 3,114,998 share purchase warrants with an exercise price of CAD\$1.33 per share, exercisable over 3 years. The acquisition was for the Company to expand its brands, enter into the edible markets and retail penetration within the state of Washington.

In addition, the Company issued 3,406,949 common shares and 1,703,475 share purchase warrants, with exercise price of CAD\$1.33 per share and exercisable over 3 years, to the shareholders of Db3 Corporation ("Db3"), a company related to NE, for an option to acquire Db3's licenses at a fair value of \$760,033.

This management agreement resulted in giving Blacklist control over NE as defined in IFRS 10, and management concluded that NE is to be consolidated into the Company as at April 1, 2019.

The allocation of consideration transferred is summarized as follows:

Purchase Price		
Cash payment	\$	855,000
9,635,150 common shares		2,609,505
4,817,575 warrants		1,036,365
Total purchase price	\$	4,500,870
Allocation of Purchase Price		
Bank indebtedness	\$	(19,139)
Receivables		52,083
Prepaid expenses		9,835
Inventory		160,753
Equipment, net		178,587
Intangible assets – NE brand		890,000
Intangible assets – Db3 option		760,033
Accounts payable & accrued liabilities		(255,028)
Other liabilities		(67,765)
Notes payables		(464,044)
Deferred income tax liability		(227,719)
Goodwill		3,483,274
Net assets acquired	\$	4,500,870

The purchase consideration has been allocated based on the Company's assessment of the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.

The acquired business contributed revenues of \$1,330,146 and net loss of \$639,674 to the consolidated entity from the period from April 1, 2019 to December 31, 2019.

If the acquisition had occurred from on January 1, 2019, consolidated pro-forma revenue and loss for the year ended December 31, 2019 would have been \$1,429,366 and \$1,276,360 respectively.

Goodwill arising from the acquisition represents expected future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from this acquisition is expected to be deductible for tax purposes.

Vegas Valley Growers North, LLC

In November 2018, Blacklist entered an agreement with Vegas Valley Growers North, LLC ("VVG") to acquire all of VVG's assets for consideration consisting of \$7,000,000 in cash and \$1,000,000 in common shares. In April 2019, the Company executed a definitive agreement to acquire from VVG's members 100% of the Membership interests of VVG by paying to the Members of VVG \$7,620,000 in cash and issuing 2,814,180 common shares at CAD\$0.5952 for a total consideration of \$8,870,000. The definitive agreement included certain conditions to closing that were not fulfilled.

Prior to the execution of the VVG definitive agreement, the Company entered into an agreement with Vegas Valley Capital Corp. ("VVC"), an entity unrelated to Vegas Valley Growers North, in which the Company was to issue its common shares to VVC in exchange for \$7,000,000 cash. VVC had entered into an agreement to fund the acquisition of VVG on behalf of the Company.

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On May 6, 2019, Blacklist signed an agreement to acquire 100% outstanding shares of VVC (see Note 16) whereby Ionic is liable for all tax and other liabilities of VVG effective March 1, 2019. The Company issued 32,171,454 common shares to the owners of VVC at a fair value of \$8,532,586, and 2,814,180 common shares to the shareholders of VVG at a fair value of \$967,393.

In December 2019, the Company and VVG terminated their agreement and the Company was to receive a termination cash consideration of \$1,300,000 to be paid in instalments over two months and the return of 2,476,478 shares issued for the proposed acquisition were to be returned to the Company's treasury. As at December 31, 2019, the Company received \$800,000 cash and 2,476,478 shares. Subsequent to the year ended December 31, 2019, the Company received the remaining \$500,000. The Company recorded a loss on acquisition of \$8,923,622 during the year ended December 31, 2019.

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OVERALL PERFORMANCE

During the year ended December 31, 2019, the Company's main focus was to increase its sales and reducing its expenses. For the year ended December 31, 2019, total revenues were \$10,287,447, representing an increase of 464%, compared to total revenues of \$1,822,682 in the prior year. The increase in revenues is primarily due to the Company's effort in introducing new products and expansion initiatives in the states of Nevada, Oregon and California.

SELECTED ANNUAL INFORMATION

The following sets out selected financial information from the Company's most recently completed financial periods, being the years ended December 31, 2019, 2018 and 2017, and are derived from, and should be read together with, the Company's annual financial statements.

Summary of components of consolidated statements of operations and comprehensive loss	Year Ended December 31, 2019 (\$)	Year Ended December 31, 2018 (\$)	Year Ended December 31, 2017 (\$)
Revenue			
Product and service sales	5,135,007	1,404,320	1,413,930
Equipment rental income	840,588	157,132	345,413
Royalty income	4,311,852	261,230	476,485
	10,287,447	1,822,682	2,235,828
Cost of goods sold	(8,679,142)	(2,287,825)	(918,361)
Gross income	1,608,305	(465,143)	1,317,467
Total operating expenses	(25,702,261)	(5,478,050)	(1,421,438)
Income (loss) from operations	(24,093,956)	(5,943,193)	(103,971)
Other items	(18,408,678)	(8,352,137)	(224,343)
Income tax recovery	227,719		
Net loss	(42,274,915)	(14,295,330)	(328,314)
	December 31, 2019 (\$)	December 31, 2018 (\$)	December 31, 2017 (\$)
Current assets	4,774,114	6,363,896	614,428
Property and equipment	634,437	381,111	404,004
Patents and trademarks	1,480,348	-	-
Right-of-use assets	958,428	-	-
Total assets	7,847,327	6,745,007	1,018,432
Current liabilities	4,624,234	20,027,584	1,364,410
Long-term liabilities	12,341,147	87,773	63,223
Shareholders' equity	(9,118,054)	(13,370,350)	(409,201)
Total liabilities and equity	7,847,327	6,745,007	1,018,432

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Summary of Quarterly Results

The following table sets forth selected financial information for the Company for the eight most recently completed quarters. Such information is derived from unaudited financial statements and audited annual financial statements prepared by management in accordance with IFRS.

	December 31, 2019 (\$)	September 30, 2019 (\$)	June 30, 2019 (\$)	March 31, 2019 (\$)
Total Revenue	1,591,802	2,821,616	3,864,041	2,009,988
Net Loss	(24,129,924)	(4,690,747)	(4,800,231)	(8,654,013)
Loss per Share	(0.15)	(0.03)	(0.04)	(0.15)
Total Assets	7,847,327	31,423,381	33,985,851	7,592,844
Working Capital	149,880	4,930,993	3,475,323	1,325,241

	December 31, 2018 (\$)	September 30, 2018 (\$)	June 30, 2018 (\$)	March 31, 2018 (\$)
Total Revenue	(1,244,073)	1,368,959	809,510	888,286
Net Income (Loss)	(13,074,771)	(1,046,956)	(176,247)	2,644
Gain (Loss) per Share	(0.26)	(0.02)	(0.00)	0.00
Total Assets	6,745,007	1,453,561	1,277,393	1,276,500
Working Capital	(13,663,688)	(1,939,108)	(878,953)	(737,086)

Overall, during the eight recently completed quarters, the Company was in an expansion mode especially starting from the fourth quarter of 2018 where by the Company incurred more expenses as it was preparing to go public and throughout 2019 when the Company had a series of attempted acquisitions that failed to materialize.

Results of Operations for the Three Months ended December 31, 2019

Revenue

Revenue for the three months ended December 31, 2019, increased by \$2,835,875 (228%) from 2018 mainly due to an increase in revenue from product sales. This was a result of growth in the underlying sales of our customers.

Gross Profit

For the three months ended December 31, 2019, gross profit increased by \$1,265,056 (61%) compared to the Q4 2018 quarter as a result of increases in product sales, royalty income and rental income. Gross margins improved from (167%) from Q4 2018 to (51%) in Q4 2019 and were primarily attributable to increases in all 3 categories of revenues.

Total Expenses

Expenses for the three months ended December 31, 2019 were \$6,467,336, an increase of \$3,829,841 from \$2,637,495 incurred during the same period in the prior year. The significant differences in expenses were as follows:

- Reorganization expense: \$1,496,332 for the three months ended December 31, 2019 compared to \$nil during the same period in prior year, as the Company reorganized itself to better use its available resources from its acquisitions during the year;
- Salaries and Wages decreased to \$520,737 from \$734,616 as the Company continued to downsize its personnel to improve its profitability.
- Marketing and investor relations: \$251,135 for the three months ended December 31, 2019 compared to \$nil during the same period in prior year, as the Company has expanded and is looking for more business opportunities.

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Results of Operations for the Year ended December 31, 2019

Revenue

Revenue for the year ended December 31, 2019, increased by \$8,464,765 (464%) from 2018 mainly due to increases in revenues from products sales, licenses revenues and equipment rentals. This was a result of growth in the underlying sales of our customers and the result of three acquisitions.

Gross Profit

For the year ended December 31, 2019, gross profit increased by \$2,073,449 (446%) compared to the same period in 2018 as a result of the improved overall sales volume. Gross margins increased to 16% from the same period in 2018's (26%) and were primarily attributable to an increase in revenue in 2019.

Total Expenses

Expenses for the year ended December 31, 2019 were \$25,702,261, an increase of \$20,224,211 from \$5,478,050 incurred during the same period in the prior year. The significant differences in expenses were as follows:

- As a result of the RTO, listing expenses of \$4,626,778 were recorded representing the difference between the cost of the assets and fair value of the net assets acquired;
- Salaries and Wages increased to \$3,713,813 from \$1,296,993 as the Company hired additional people to assist in its growth.
- Bad debt expense of \$4,079,014 was recorded for 2019, compared to \$1,216,079 in 2018 as the Company recognized impairment of trade receivables for amounts outstanding for more than 120 days.
- Share-based payments: \$2,194,468 for the year ended December 31, 2019 compared to \$nil during the same period in 2018, as the Company issued stock options and performance warrants to directors, management, employees and consultants;
- Professional fees: \$1,996,431 for the year ended December 31, 2019 compared to \$1,512,664 during the same period in prior year, as the Company engaged advisors and consultants to assist in the RTO, acquisitions as well as the growth in the business;
- Interest and finance charges: \$1,505,936 for the year ended December 31, 2019 compared to \$128,238 during the same period in prior year, as the Company borrowed money to finance its expansion and growth;

OUTLOOK

The Company has successfully recalibrated its growth strategy to remain focused on markets that it understands, which has significantly reduced its operating expenses that are now aligned with revenues. The Company plans to continue to reinvest into its premium and luxury branded products and introduce economy-specific brands that are more attractive to a broader consumer demographic while focusing our attention on building a regionalized multistate operation of cannabis brands in the Pacific Northwest markets, which includes Washington and Oregon. Once the Company's brands are firmly established in the Pacific Northwest region, we will resume a more aggressive expansion accompanied by strong financial results. Once we have accomplished this primary goal, the Company will then move forward with further regional development on the west coast directly or indirectly through more substantial licensing agreements that preserve strong gross margin revenue or acquisition of certain licenses or existing operations. The Company has already created CBD spin-offs of its Zoots branded edible products to be released into major retail distribution, which will focus on our national expansion plans. The Company will continue to develop additional product offerings and introduce its products in other recreational markets. The Company anticipates this strategy will increase the IONIC BRANDS brand's recognition and lead to quicker and more robust sales growth quarter over quarter, controlled by greater financial discipline in managing growth and expansion.

The Company currently anticipates that momentum being realized throughout the business will lead to healthier financial results in the second half of 2020. Factors expected to contribute to improved top-line and bottom-line performance includes the following:

- Licensing revenues from new and recently-signed strategic CBD manufacturing partners are commencing and growing as that partner introduces our Zoots products into the national retail markets.
- Increase sales from the Company's recent and ongoing expansion into new product categories and introduce new brands.
- The resumption of economic activity as local economies re-open from COVID-19 closures, and travel/tourism comes back.
- Positive sales trends in June, July, and August 2020, which may indicate the start of a bounce-back to pre-COVID sales levels.
- Reduced operating expense run-rate as a result of recent streamlining activities.

Continued focus on prudent credit management and prioritization of near-term cash generation.

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CAPITAL STRUCTURE

As of the date of this MD&A, the Company has 194,171,151 common shares issued and outstanding. In addition, there are outstanding share purchase warrants and stock options for a further 32,651,513 and 6,163,500 common shares, respectively.

Subsequent to the year ended December 31, 2019, the Company issued 28,856,762 common shares on conversion of convertible debentures and associated interest in lieu of cash and 3,564,598 common shares on conversion of debt.

CAPITAL RESOURCES

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of Shareholder's equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach as at the year ended December 31, 2019.

LIQUIDITY

The Company's objective in managing liquidity risk is to maintain sufficient liquidity in order to meet operational and investing requirements. The Company has historically financed its operations primarily through the sale of share capital by way of private placements and issuances of debt.

The Company's financial statements for the year ended December 31, 2019 have been prepared on a going concern basis, which assumes that the Company will continue in operation in the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. At December 31, 2019, the Company had working capital of \$149,880 (December 31, 2018 – deficiency of \$13,663,688). The Company had a deficit of \$57,110,422 as at December 31, 2019 (December 31, 2018 – \$14,835,507).

To maintain liquidity, on May 16, 2019, the Company closed a brokered offering of 17,227 convertible debenture units for gross proceeds of \$12,818,662 (CAD\$17,227,000) pursuant to a private placement of Units with a concurrent non-brokered offering of 2,532 Units for gross proceeds of \$1,884,069 (CAD\$2,532,000). The Units sold under the Concurrent Offering have the same terms and conditions as those Units sold under the Brokered Offering. Each Unit consists of (i) \$744 (CAD\$1,000) principal amount of 8.0% unsecured debentures convertible into common shares of the Company at a conversion price of \$0.56 (CAD\$0.75) per share, maturing on May 16, 2022, and (ii) 1,333 common share purchase warrants of the Company. Each warrant entitles the holder to purchase a common share at an exercise price of CAD\$0.67 (\$0.90) until May 16, 2022, subject to acceleration in certain circumstances.

Subsequent to the year ended December 31, 2019, the Company held a special meeting of shareholders, debenture-holders and warrant-holders whereby special resolutions to make amendments to the May 2019 debentures and warrants:

- Decrease the conversion price at which the debenture-holders may convert outstanding principal amount of the debentures into shares from \$0.57 (CAD\$0.75) per share to \$0.04 (CAD\$0.05) per share such that each \$744 (CAD\$1,000) of outstanding principal amount under the debentures will be converted into 20,000 shares; and
- Decrease the price per share upon which the acceleration clause which gives the Company the right (but not the obligation) to convert the outstanding principal amount under the debentures into shares is triggered, such that if prior to May 16, 2022, being the maturity date of the Debentures, the daily volume weighted average price of the shares on the Canadian Securities Exchange (the "CSE") for five consecutive trading days exceeds \$0.12 (CAD\$0.16) per share, the Company will have the right, at its option, to convert all of the principal amount of the debentures into shares at the conversion price of \$0.04 (CAD\$0.05) per share.
- Decrease the exercise price at which the warrant-holders may exercise their warrants for shares from \$0.68 (CAD\$0.90) per share to \$0.57 (CAD\$0.75) per share; and

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- Include a clause to accelerate the expiry date of the warrants, as is required by the policies of the CSE, whereby, if the closing price of the shares on the CSE for ten consecutive trading days exceeds \$0.071 (CAD\$0.094) per share (the "Accelerated Period"), the expiry date of the Warrants will be automatically accelerated without any further action on the part of the Company or the warrant-holders to a date that is 30 days following the end of the Accelerated Period.
- As part of the renegotiation with the debenture holders, the Company has agreed to secure the debentures with all of the assets of the Company.

The development of the Company in the future will depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the issuance of equity and debt securities to meet its cash requirements. Funding for potential future development obligations, in excess of funds on hand, will depend on the Company's ability to obtain financing through debt and equity financing, or other means. There can be no assurances that the Company will be successful in obtaining any such financing; failure to obtain such additional financing could result in the delay or indefinite postponement of further development of the Company's operations.

RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel during the years ended December 31, 2019 and 2018 was as follows:

	December 31, 2019		December 31, 2018	
Salaries and wages	\$	1,414,783	\$	820,335
Professional fees		222,094		37,500
Business development		-		116,497
Rent		39,000		63,000
	\$	1,675,877	\$	1,037,332

Accounts Payable and Accrued Liabilities

As at December 31, 2019, the following amounts in accounts payable were due to related parties:

- \$33,377 (December 31, 2018 - \$41,167) owing to a director for services rendered;
- \$nil (December 31, 2018 - \$3,000) owing to a director for services rendered;
- \$nil (December 31, 2018 - \$57,000) owing to a company controlled by a director for rent.
- \$142,225 (December 31, 2018 - \$nil) owing to directors for deferred compensation.

Loans Payable

As at December 31, 2019, \$nil (December 31, 2018 - \$474,423) in loans payable were owed to related parties (Note 12). During the year ended December 31, 2019, the Company recorded interest expense of \$63,427 (December 31, 2018 - \$73,540) paid to related parties.

Accounts Receivable

As at December 31, 2019, \$1,789,000 (December 31, 2018 - \$57,193) in accounts receivable were due from a company related to a company jointly owned by the Company's CEO and former CFO.

Due from Related Parties

On May 31, 2019, the Company loaned an officer \$25,000. The loan carries an interest at 3% per annum and is due and payable upon the officer's authorization to sell his shares in the Company.

During the year ended December 31, 2019, the Company loaned \$2,485,283 to a company owned by the Company's CEO. The loan carries interest at 3% per annum and is due on or before January 1, 2022. As at December 31, 2019, the balance outstanding was \$316,564 as the loan was impaired due to the uncertainty of the companies' ability to repay the entire balance.

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Transactions with Related Parties

During the year ended December 31, 2019, the Company had product and service sales to a company jointly owned by the Company's CEO and former CFO of \$8,068,695 (December 31, 2018 - \$1,404,320).

On October 1, 2017, Blacklist entered into a commercial lease agreement with a company controlled by a former director for its former head office. Under the agreement, Blacklist is required to make lease payments for a term of 3 years. As at January 1, 2019, the Company adopted IFRS 16, and recognized both an ROU asset and a lease liability for this contract. During the year ended December 31, 2019, the Company paid off the lease liability.

During the year ended December 31, 2019, Blacklist entered into an asset lease agreement with a company controlled by the Company's CEO and former CFO that expires on January 1, 2020. Under the agreement, Blacklist is a lessor, originally leased the equipment for monthly rental of \$33,332. Shortly after the execution of the agreement, both parties mutually filed amendments to the lease to represent additional equipment for monthly payments of \$76,750.

During the year ended December 31, 2019, the Company recognized equipment rental income of \$747,330 (December 31, 2018 – 157,132).

On January 1, 2017, Blacklist entered into an agreement with a company jointly controlled by the Company's CEO and former CFO (the "Licensee"). Under the agreement, Blacklist granted the Licensee a non-exclusive, non-transferable, non-assignable license to reproduce, distribute, publicly display and publicly use the IONIC trademark. At granted commencement, the Licensee was to pay licensing fees of 5% of its gross revenue for 3 years. On January 1, 2018, the license fee was increased to 10% of gross revenue. During the year ended December 31, 2019, the Company recognized royalty income of \$363,133 (December 31, 2018 - \$261,230).

During the year ended December 31, 2019, the Company earned \$395,300 (December 31, 2018 - \$nil) in procurement fees from a company jointly controlled by the Company's CEO and former CFO.

During the year ended December 31, 2019, the Company incurred expenses of \$nil (December 31, 2018 – \$781,362) to three companies controlled by the Company's CEO. The ability of these companies to repay the amounts owing is uncertain, and therefore, all of the amounts receivable have been impaired.

OFF BALANCE SHEET ARRANGEMENTS

The Company currently has no off-balance sheet arrangements.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access as at the measurement date.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly or indirectly.
- Level 3 fair value measurements are those derived from inputs that are unobservable inputs for the asset or liability.

The fair value of cash approximates their carrying value due to the short-term maturity. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements approximates their fair value due to the demand nature or short-term maturity of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Recent Accounting Pronouncements

Adoption of IFRS 16 "Leases"

Effective January 1, 2019, the Company adopted IFRS 16 which supersedes IAS 17 Leases ("IAS 17"). The Company has applied the new standard using the modified retrospective approach with no restatement of comparative periods. There were no adjustments to retained earnings as a result of adoption.

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to use an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases with a lease term of 12 months or less and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments and expected payments at the end of the lease, discounted using the rate implicit in the lease. If the rate implicit in the lease cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The right-of-use asset is measured at a cost that includes the lease liability, adjusted for any initial direct costs; prepaid lease payments, estimated costs to dismantle, remove or restore, and lease incentives received. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses.

The Company re-measures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Company has elected not to reassess whether a contract is, or contains a lease at the date of the initial application. Instead, for contracts entered into before the transition date the Company relied on the previous assessment made under IAS 17 and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after January 1, 2019.

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On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company applied the following practical expedients when adopting IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on previous assessments on whether leases are onerous;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases where the lease term ends within 12 months of the date of initial application;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight to determine the lease term where contracts contain options to extend or terminate the lease.

Under IFRS 16, the Company is required to assess the classification of a sublease with reference to the right-of-use asset, not the underlying asset. The Company does not have any subleases.

On transition to IFRS 16, the Company recognized lease assets and liabilities. The impact on transition is summarized below:

	January 1, 2019
Lease liabilities before discounting	\$ 439,400
Discounted using the incremental borrowing rate at January 1, 2019	(68,212)
Operating lease liability recognized at January 1, 2019	\$ 371,188
	January 1, 2019
Operating lease liability at January 1, 2019	\$ 371,188
Lease payments prior to January 1, 2019	-
Interest prior to January 1, 2019	-
Depreciation prior to January 1, 2019	-
Right of use lease asset at January 1, 2019	\$ 371,188

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019 at 10%.

Financial Risk Factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its cash and accounts receivable. The Company limits its exposure to credit loss on cash by placing its cash with a high-quality financial institution. The company has concentrations of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated amongst a small number of customers. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable.

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Liquidity risk

Liquidity risk arises from the Company's general and capital financing needs. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities, when feasible.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2019 and 2018:

	On demand (\$)	Less than 1 year (\$)	1 to 2 years (\$)	2 to 3 years (\$)	Total (\$)
Trade payables	2,679,296	-	-	-	2,627,749
Lease liabilities	-	543,,762	309,596	-	853,358
Vehicle loans	-	26,606	23,039	58,100	107,745
Loans payable and accrued interest	569,706	414,530	500,000	-	1,484,236
Convertible debt and accrued interest	-	1,892,250	1,849,900	19,192,713	22,934,863
Total liabilities	3,249,002	2,877,148	2,682,535	19,250,813	28,059,498

Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants that conduct business with affiliates in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property is never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Banking risk

Notwithstanding that many states have legalized recreational cannabis, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate ordinary businesses.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest-bearing loans and borrowings are all at fixed interest rates. The Company considers interest rate risk to be immaterial.

Subsequent Events

Refer to Note 21 in the consolidated financial statements for the year ended December 31, 2019.

Critical Accounting Estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgments in applying its accounting policies and estimates and assumptions about the future. These judgments, estimates, and assumptions affect the reported amounts of assets and liabilities at the reporting date and reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance. Actual results may differ from these estimates under different assumptions or conditions. The following discusses the most significant accounting judgments, estimates and assumptions that the Company has made in the preparation of its financial statements.

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Areas of Judgment

Estimated Useful Lives and Depreciation of Property and Equipment

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

Impairment

The carrying value of long-lived assets is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is recognized in the statement of operations. The assessment of fair values requires the use of estimates and assumptions for recoverable production discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of long-lived assets could impact the impairment analysis.

Allowance for Doubtful Accounts, and the Recoverability of Receivables

Significant estimates are involved in the determination of recoverability of receivable and no assurance can be given that actual proceeds will not differ significantly from current estimations. Management has made significant assumptions about the recoverability of receivables. During the year ended December 31, 2019, the Company recorded a bad debt expense of \$4,079,014 (2018 - \$1,216,079) for receivables where collection is doubtful.

Contingencies

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the annual consolidated financial statements.

Income Taxes

The assessment of income taxes involved the probability of realizing deferred tax assets, in relation to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position will be sustained upon examination by applicable tax authorities. In making its assessment, management give additional weight to positive and negative evidence that can be objectively verified.

Significant Judgments

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's condensed consolidated interim financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The fair value and classification of financial instruments; and
- The classification of leases as either operating or finance type leases.

RISKS AND UNCERTAINTIES

Overview

There are a number of risk factors that could cause future results to differ materially from those described herein. The following sets out certain of the principal risks faced by the Company. Additional risks and uncertainties, including those that the Company does not know about or that it currently deems immaterial, could also adversely impact the Company's business and results of operations. Additional information about the Company and its business activities is available on SEDAR at www.sedar.com.

Issuers with US Cannabis-Related Assets

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352 Issuers with US Marijuana-Related Activities (the "Staff Notice") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular State's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents, such as MD&A's, in order to fairly present all material facts, risks and uncertainties about issuers with US cannabis-related activities.

Such disclosures includes, but is not limited to: (i) a description of the nature of a reporting issuer's involvement in the US cannabis industry; (ii) an explanation that cannabis is illegal under US federal law and that the US enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's US cannabis-related activities are conducted in a manner consistent with US federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to supporting continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US cannabis industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

As a result of the Company's existing operations in the United States, Ionic is subject to the Staff Notice and according provides the following disclosure.

The Company Will Not be Able to Deduct Many Normal Business Expenses. Under Section 280E of the Internal Revenue Code ("**Section 280E**"), many normal business expenses incurred in the sale and distribution of cannabis and its derivatives are not deductible in calculating federal income tax liability. A result of Section 280E is that an otherwise profitable business may in fact operate at a loss, after taking into account its income tax expenses. The application of Section 280E likely will have a material adverse effect on businesses that the Company provides financing, consulting services and brand licensing to and may, in turn, have a material adverse effect on the Company. Although the Company does not presently believe it is subject to the provisions of Section 280E, there is no assurance that the Internal Revenue Service will agree. Therefore, the Company faces the risk of not being able to deduct many normal business expenses in calculating its federal income tax liability. As a result, the Company may be subject to paying income tax at a higher rate than the Company anticipates along with resulting penalties and interest if the IRS does not agree with the Company's interpretation of the Internal Revenue Code.

Risks Related to Product Recalls. Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as malfunctioning hardware, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Recall of products could lead to adverse publicity, decreased demand for the Company's products and could have significant reputational and brand damage. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. A recall for

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any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Risk Related to Contaminates. The Company tests all of its products with state licensed third party laboratories to ensure that its products are free of contaminants. These laboratory's analyses may be inaccurate and thereby result in the Company unknowingly shipping products with certain impurities. The potential for contaminated product reaching the retail market and therefore the consumer exists and could have a negative impact both on sales and the image of the brand.

Risks Related to Vaping Products. The Company tests all of its products with state licensed third party laboratories to ensure that its products are free of contaminants or other harmful products. Recently the Press has reported on numerous people becoming ill after using vape products (both containing and not containing cannabis). Although the causes of the illnesses have yet to be discovered, it has let some states to impose a ban on vape products. A ban in conjunction with unfavorable press and the possibility that these illnesses were caused by Vape products could have a negative impact on the Company's sales.

Limited Operating History. As a high growth enterprise, the Company does not have a history of profitability. The Company is therefore subject to many of the risks common to early-stage enterprises, including under- capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Inability to Protect Intellectual Property. The Company may have certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company's. Other companies may also be able to materially duplicate the Company's proprietary products. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Company's ability to successfully implement its business plan depends in part on its ability to obtain, maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including the Company's names and logos. If the Company's efforts to protect its intellectual property are unsuccessful or inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Company's business and might prevent its brands from achieving or maintaining market acceptance.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs. See also: *Risks Specifically Related to the United States Regulatory System – Limited Trademark Protection.*

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Intellectual Property Claims. Companies in the retail and wholesale industries frequently own trademarks and trade secrets and often enter into litigation based on allegations of infringement or other violations of intangible property rights. The Company may be subject to intangible property rights claims in the future and its products may not be able to withstand any third-party claims or rights against their use. Any intangible property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert Management resources and attention. An adverse determination also could prevent the Company from offering its products to others and may require that the Company procure substitute products or services.

With respect to any intangible property rights claim, the Company may have to pay damages or stop using intangible property found to be in violation of a third party's rights. The Company may have to seek a license for the intangible property, which may not be available on reasonable terms and may significantly increase operating expenses. The technology also may not be available for license at all. As a result, the Company may also be required to pursue alternative options, which could require significant effort and expense. If the Company cannot license or obtain an alternative for the infringing aspects of its business, it may be forced to limit product offerings and may be unable to compete effectively. Any of these results could harm the Company's brand and prevent it from generating sufficient revenue or achieving profitability.

The Market Price of the Common Shares May be Subject to Wide Price Fluctuations. The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Competitive Product Risks. The market is characterized by a growing number of new market entrants competing in the same product categories as the Company. As such there is considerable competition in the marketplace.

Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the Company's business, financial condition and results of operations.

To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

To succeed in the marketplace the Company needs to differentiate itself which it has done via innovative design and technology

Brand Perception. The Company is a new entrant in the marketplace with no prior history. This is partially mitigated by the targeted acquisitions of companies with market acceptance and by the experience of the founders. The Company believes its industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products and perceptions of regulatory compliance. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. In particular, vaporizers, electronic cigarettes and related products have only recently been developed and the long-term effects have yet to be

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examined. Currently, there is no way of knowing whether these products are safe for their intended use. If the scientific community was to determine conclusively that use of any or all of these products poses long-term health risks, market demand for these products and their use could materially decline.

The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis-related products in general, or the Company's products specifically, or associating the consumption of cannabis- related products with illness or other negative effects or events, could have such a material adverse effect.